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LABOUR MARKET  
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## LABOUR MARKET DEVELOPMENTS

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## LABOUR MARKET DEVELOPMENTS\*

### ISSUE DEFINITION

Labour, the most widely used and valued input in Canadian production, is exchanged in a market best described as being in a constant state of flux. Recent estimates suggest that approximately five million workers secure employment each year while a somewhat larger number become unemployed or leave the labour market. Conditions in this market throughout the last decade and the beginning of the 1990s were influenced by a number of factors, including two major recessions, growth in non-standard employment, rising skill requirements and an increase in the incidence of long-term unemployment. These, and other developments in the labour market that have occurred since the beginning of the last decade, are the subject of this review.

### BACKGROUND AND ANALYSIS

The demand and supply of labour in this country is measured officially by Statistics Canada in its monthly Labour Force Survey, which involves approximately 52,000 representative households across the country. This survey is usually conducted during the week containing the 15th day (also known as the reference week). Although the survey is intended to represent the population 15 years of age and over, individuals residing in the Yukon and Northwest Territories, residents of Indian reserves, full-time members of the Armed Forces and people living in institutions are excluded. The supply of labour is measured by the size of the labour force,

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\* The original version of this Current Issue Review was published in January 1989; the paper has been regularly updated since that time.



including both employed and unemployed individuals. The demand for labour is represented by the employed component of the labour force.

The survey defines as employed those who, during the reference week: did any work at all (work is defined as any work for pay or profit conducted under an employer/employee relationship); were self-employed (this includes those who did unpaid work related to a family farm, or a business or professional practice owned or operated by a family member); or had a job but were unable to work because of sickness, family responsibilities, bad weather, labour dispute, vacation or some other reason (not including waiting to be recalled or planning to start work in the near future). It should be noted that this definition of "employed" does not distinguish between various amounts of time spent working and thus affords equal weight to full-time and part-time employment.

The survey defines as unemployed those who, during the reference week: were without work, able to work and had been looking for work in the past four weeks (including full-time students looking for part-time work provided they do not report an unacceptable reason for not taking a job); or were waiting to be recalled from a layoff or expecting to start a new job in four weeks or less. The survey thus generates data which present a static picture of the labour market. It does not provide us with a dynamic perspective which, in any given month, would differentiate between individuals who, for example, were employed all month, unemployed all month, employed for part of the month and unemployed for the rest of the month, were not in the labour force for part of the month but employed for the rest of the month and so on.

#### A. Labour Supply Growth and Composition

Change in the size and composition of the Canadian labour force is a function of change in the source or working age population (the population 15 years of age and over), the participation rate (the labour force expressed as a percentage of the source population) and the demographic makeup (age, sex, etc.) of both. During the last decade, the supply of labour grew at an average annual rate of roughly 2.0% or less than two-thirds the annual growth rate witnessed



throughout the 1970s. Undoubtedly assisted, in part, by the 1990-91 recession, labour force growth has continued to slow in the 1990s, averaging 0.9% per year between 1990 and 1995.

Three primary forces have played a significant role in shaping our labour force since the beginning of the 1980s: a rapid decline in the size of the youth source population, strong growth in the participation rate of "prime age" women (25-54 years of age) and a decrease in the participation rate of older workers. After the massive influx of young people into the labour market during the 1970s, the size of the youth component of the labour force steadily declined from its peak of roughly 3.27 million in 1981 to approximately 2.5 million in 1995. At the beginning of the last decade, youth accounted for about 27% of the labour force; today it accounts for almost 16%. Since the beginning of this decade, the youth participation rate has dropped from 69% to 62%, its lowest level since 1980.

Though the source populations of both prime age men and women have demonstrated similar rates of growth since the beginning of the 1980s, the participation rate among prime age women grew by 15 percentage points, while the rate for men declined marginally. As a result, women accounted for 59% (approximately 2.2 million) of the growth in the supply of prime age workers over this period. In 1995, women's share of the prime age labour force was 45%, up from about 39% at the beginning of the last decade.

Despite a 36.8% increase in their source population since 1980, labour force growth among Canada's oldest workers (55 years of age and over) grew by a meagre 4.5% during this period. This sluggish growth was due to a steady decline in the participation rate of older, primarily male, workers. Thus, in spite of the fact that the overall labour force is aging, this group's share of total labour supply fell from 11.0% in 1980 to 9.3% in 1995.

## B. Labour Demand

Over the last decade and a half, the demand for labour has changed markedly in terms of growth, regional distribution and industrial composition. Throughout the 1970s, the demand for labour increased at an average annual rate of about 2.9%. This compares favourably to the 1980s and the period 1990 to 1995, where employment grew at an annual average rate of 2%



and 0.5% respectively. The recessions of 1981-82 and 1990-91 were the dominant reason for this slowdown. While the 1981-82 recession generated a higher net reduction in employment, the rate of job creation following the 1990-91 recession was considerably more sluggish. In the three-year period following the 1990-91 recession, employment increased at an average annual rate of 0.9%, less than one-half the rate in the period 1983 to 1985. Canada's experience in this regard is not unique; many other OECD countries witnessed considerably slower job growth during the first three years of economic recovery in the 1990s than they had in the corresponding period of the previous recovery.

Youth bore a disproportionate share of the decline in employment in both recessions, accounting for 78% of the decline in employment in 1982 and 68% of that in 1991. Job growth among youth remained depressed well into both recovery periods, despite overall growth in employment. Adult men accounted for the balance of the reduction in labour demand in those years. Apparently recession-proof, the demand for labour among adult women continued to increase in 1982 and 1991. This phenomenon is attributed largely to continued growth in the community, business and personal service industry where women account for more than 60% of employment.

While, until now, economic growth had produced, for the most part, full-time and relatively secure employment throughout much of the post-war period, this is not the case today. Full-time job growth has not only dropped off in recent years, but its relative share of overall employment has also declined, falling from approximately 86% to 81% between 1980 and 1995. Compared to the beginning of the last decade, Canada's workplace today comprises proportionately higher levels of part-time, short-tenure and contract jobs (commonly referred to as non-standard employment). There has been little change in terms of average weekly hours of work over the same period. According to a recent Statistics Canada report, weekly hours of work in 1980 averaged 35.2 hours while in 1995 they averaged 37.7. Underlying this apparent stability in weekly worktime, however, is a redistribution of these hours. Today, proportionately fewer individuals work standard hours (35 to 40 hours per week) and proportionately more work short hours (15-29 hours) and long hours (40 hours and more).



The growth in non-standard employment has undoubtedly added flexibility to the workplace as it permits firms to adjust their labour needs and costs more quickly and accommodate workers who want to work outside the full-time regime. Some observers, however, are concerned about the growth in non-standard work-time as some of the new arrangements offer workers less job security, lower earnings, and fewer benefits. It has been suggested that the trend toward non-standard employment has contributed to a polarization of earnings (a widening gap between low and high wage earners) in Canada. In addition to this, many Canadians have experienced a decline in their real income since the beginning of the last decade. Between 1980 and 1994, the average income (before transfers) of individuals in the lowest (first), second, middle and fourth income quintiles declined by 15%, 26%, 16% and 7% respectively, while those in the fifth quintile witnessed a slight increase of 1%. Decreases in average real after-tax incomes were observed in all income quintiles, save the lowest, during the same period.

The industrial composition of growth in employment since the beginning of the last decade reflects a continuation of the trend in economic activity away from goods to services production. Since the beginning of the last decade, the level of employment in goods production (i.e., agriculture; fishing and trapping; logging and forestry; mining, quarrying and oil wells; manufacturing; construction and other utilities which include electric power, gas and water) expressed as a proportion of total employment declined from roughly 34% in 1980 to 27% in 1995.

As expected, changes in occupational demand during the period, 1980 to 1995, closely reflected changes in industrial composition. This is illustrated by the fact that white collar occupations (managerial, administrative and professional; clerical; sales; and service) were almost exclusively responsible for employment growth during this period. Growth in managerial, administrative and professional occupations accounted for more than three-quarters of total employment growth since 1980. More than three-fifths of this increase is attributed to women in this occupational group. This suggests that growth in labour demand over this period was concentrated in relatively highly skilled occupations, a trend which is expected to continue, and possibly grow stronger, in the years to come. A recent estimate suggests that approximately



approximately one-fifth of net increase in employment between 1995 and 2000 is expected to require managements skills, 20% is expected to require a university degree, 20% a community college degree or trade certification and almost one-third is expected to require high school completion.

### C. Unemployment

During the latter part of the 1981-82 recession and the initial period of recovery, labour market conditions in this country deteriorated dramatically. In 1983, unemployment reached its highest level since the beginning of the post-war period. It registered an annual average rate and level of 11.8% and 1.43 million individuals. Over the remainder of the decade, these aggregate annual measures of unemployment declined markedly, though by 1989 the number of unemployed remained above its pre-recession level. Nevertheless, the unemployment rate finally attained its pre-recession level in 1989. At the regional level, Central Canada witnessed the greatest improvement in labour market conditions following the 1981-82 recession. Throughout the period 1983-89, this region's unemployment rate declined rapidly from a high of 11.8% in 1983 to 6.7% in 1989, thus distinguishing it as the only region to attain an annual average unemployment rate equal to or less than that found prior to the recession. Elsewhere in the country, labour market conditions continued to worsen beyond 1983. Climbing to a maximum of 11.7% in 1984, Western Canada's unemployment rate more than doubled during the recession. The unemployment rate in the Atlantic region did not begin to decline until Canada entered its fourth year of recovery. After reaching a maximum of 15.6% in 1985, the annual average unemployment rate in this region fell to 12.4% in 1988 and remained there until the end of the decade.

With the onset of the 1990-91 recession, the steady decline in unemployment witnessed over the latter half of the 1980s came to an abrupt halt. Throughout the period 1990 to 1992 the level of unemployment increased at an annual average rate of 15.8%, somewhat lower than the rate of increase in the corresponding three-year period in the previous recession. Also unlike the case in the previous recession, Central Canada witnessed the largest relative increase in



unemployment during the 1990-91 recession and the early stages of recovery. Western Canada, on the other hand, witnessed only two years of rising unemployment (compared to four in the previous recession), after which the level of joblessness began to fall. While the aggregate level of unemployment has steadily declined since 1993, its level in 1995 was approximately 34% above the pre-recession level of 1989.

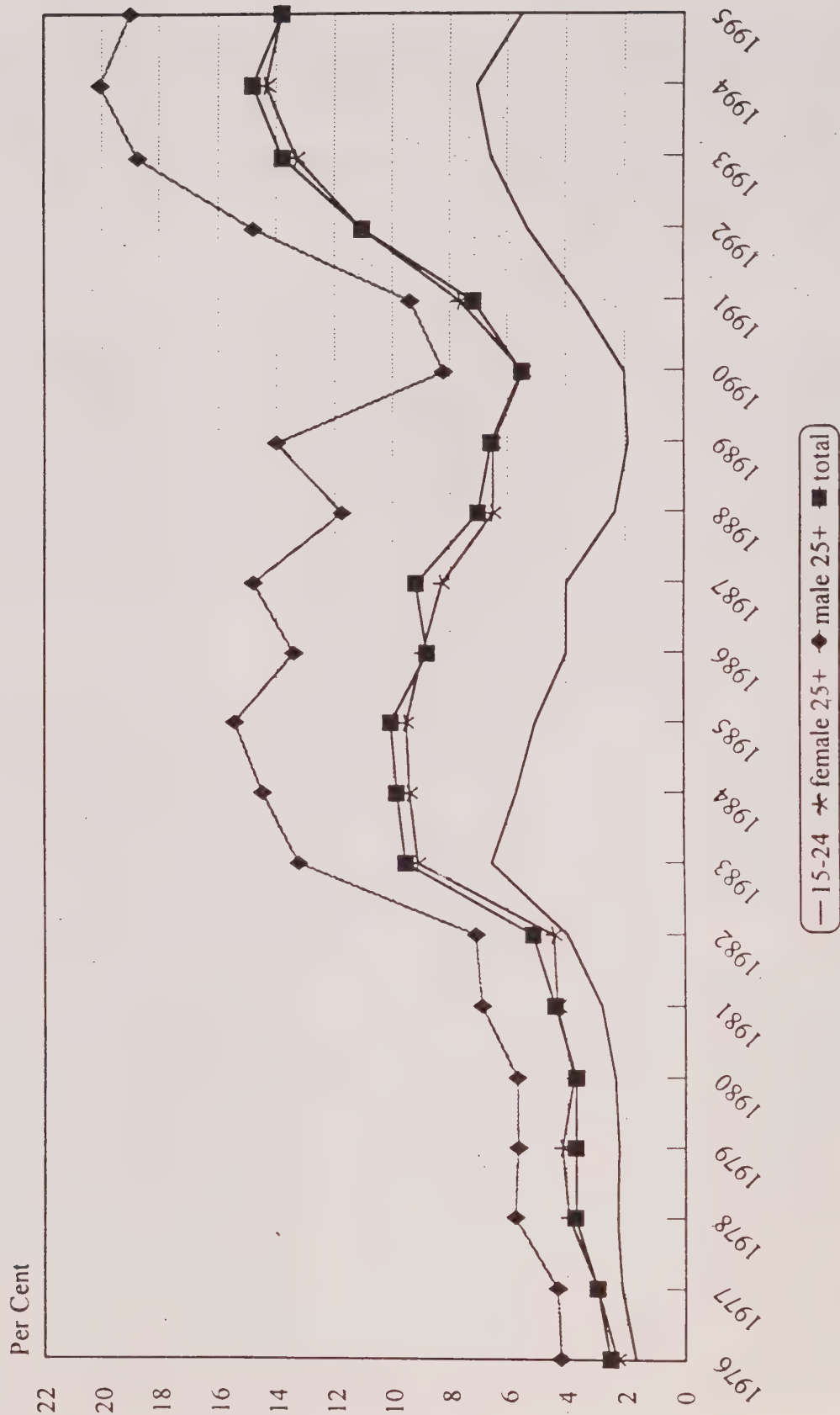
Typically sensitive to downside cyclical changes, economic decline usually exerts its greatest initial impact on youth. In the early months of the 1981-82 and 1990-91 recessions the demand for young workers plummeted and the rate of unemployment among youth increased relative to that among adults. **Despite this, the relative labour market position of youth has improved since 1980; the relative youth unemployment rate (expressed as the ratio of the youth unemployment rate to the adult unemployment rate) steadily declined from 2.38 in 1980 to 1.7 by the end of the decade. Although this relative rate remains lower today (1.89 in 1996) than in 1980, it has risen steadily since 1989.**

During both the 1981-82 and 1990-91, recession, the relative position of women in the labour market improved markedly. In 1982 and 1983, the annual average unemployment rate of women expressed as a proportion of the rate for men was less than unity, a situation contrary to that usually found elsewhere in the business cycle. While this ratio exceeded one during the period 1983 to 1989, it dropped below unity once again in 1990 and has remained there since.

Although many important developments have emerged in the labour market since the beginning of the 1980s, one considered by many to be particularly significant is the increased incidence of long-term unemployment (unemployment lasting 53 weeks and more). By the middle of the 1980s, the proportion of individuals experiencing long-term unemployment (LTU) almost tripled relative to the beginning of the decade. As illustrated graphically on the following page, the burden of this increase appears to have fallen most heavily on adults, especially adult men.



Chart One  
Long-Term Unemployed as Per Cent of  
Unemployment, by Age and Sex, 1976-1994





According to estimates compiled by Statistics Canada, 33,000 individuals experienced LTU in 1980. Of these, 30% were youth, 24% were adult women and 46% were adult men. As expected, the number of long-term unemployed individuals increased dramatically during the 1980-81 recession and by 1983 reached a maximum level of 144,000. Despite a rather robust recovery, however, the number of long-term jobless individuals remained relatively high. The 1990-91 recession pushed those experiencing LTU, whose numbers had declined to 64,000 in 1990, to a high of 228,000 in 1994. LTU declined to 196,000 in 1995, with youth accounting for 11% of long-term employment, adult women 32%, and adult men 57%. This distribution marks a major shift in long-term unemployment away from youth to adults, especially adult males, since the beginning of the previous decade.

As the demand for labour falls in response to a decline in the demand for output, unemployed individuals must usually engage in longer periods of search before they find a job. Thus, it is not uncommon to witness an increase in unemployment duration during a downturn in the business cycle. As the economy returns to more normal levels of economic activity, the average duration of joblessness usually declines as well. The incidence of LTU increased dramatically following the 1981-82 recession and today is almost four times higher than the beginning of the last decade.

#### D. Quarterly Review (4th Quarter 1996)

As illustrated in Chart 2, labour market conditions gradually worsened throughout 1996; the seasonally-adjusted rate of unemployment in the final quarter of last year was 0.4 of a percentage point above the rate in the first quarter.

The size of the seasonally-adjusted labour force increased by 91,000 individuals in the final quarter of 1996. Roughly four-fifths of this increase consisted of individuals 25 years of age and older. In addition, men accounted for almost two-thirds of the labour force growth witnessed during this period.

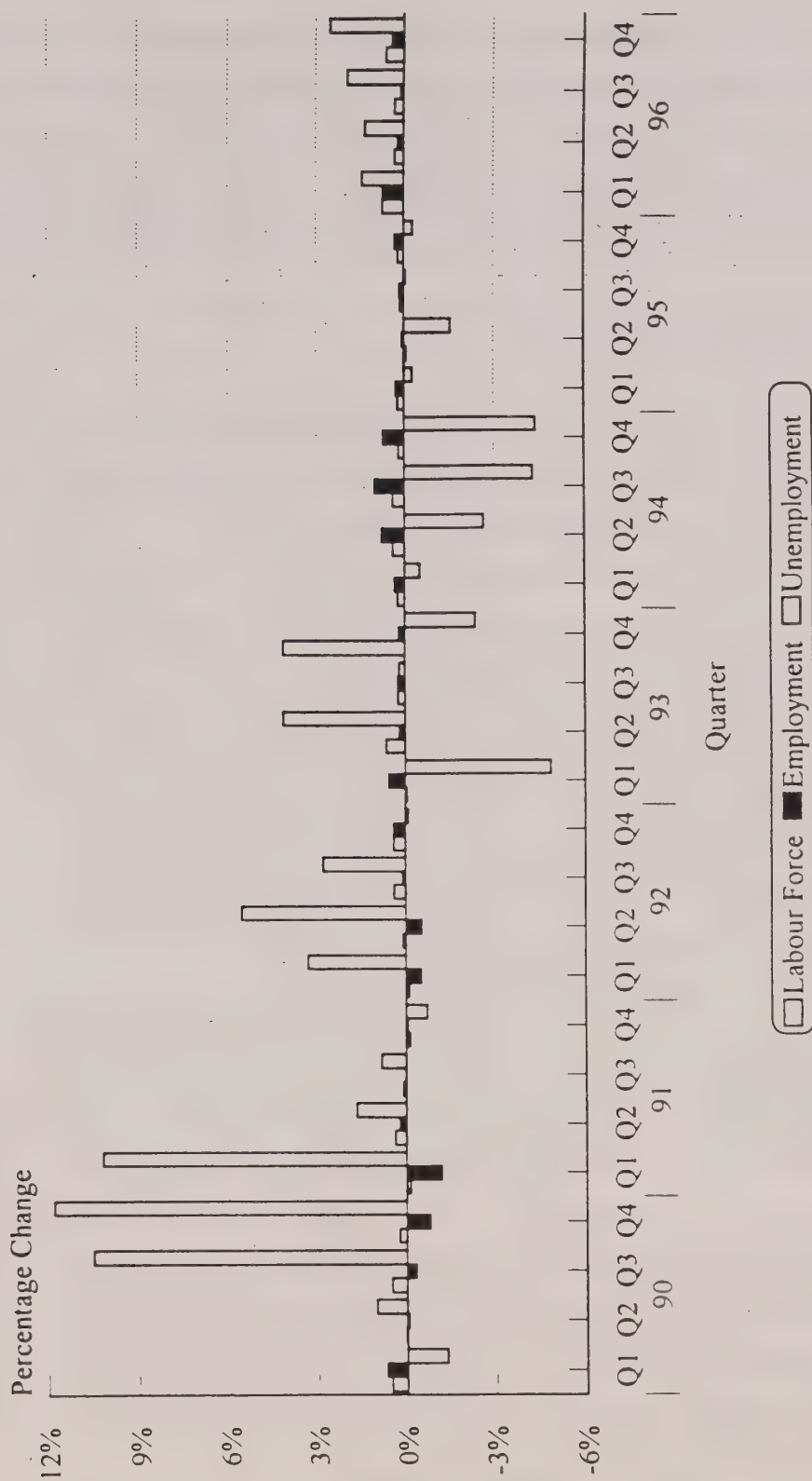
The demand for labour increased by 54,000 workers in the last quarter of 1996. This represents roughly 29% of the overall net increase in employment in 1996.



Employment growth in the final quarter of last year was confined to adult workers and more than 90% of it consisted of part-time jobs. The level of youth employment declined by 5,000 workers in the last quarter of 1996, a trend that has persisted for the most part since the mid-1980s. Fourth quarter seasonally-adjusted employment growth in goods-producing industries outpaced that in service-producing industries, both in absolute and relative terms. In fact, compared to the last quarter of 1995, goods-producing industries created some 100,000 jobs by the fourth quarter of 1996. Although this sector accounts for less than 30% of total employment in the Canadian economy, it was responsible for more than one-half of the total growth in employment in 1996. The lacklustre job creation performance in service-producing industries was fairly widespread throughout 1996.

The number of jobless individuals in the final quarter of last year increased to 1.5 million, up 37,000 individuals from the previous quarter and the largest quarterly increase in 1996. This increase was disproportionately distributed across the country, with Atlantic Canada witnessing a much greater share of the increase in overall joblessness relative to its share of the labour force. In terms of regional unemployment, the rate in Atlantic Canada reached 14.5% in the final quarter of 1996, up 0.8 of a percentage point from the previous quarter. The seasonally-adjusted unemployment rate in Western Canada remained essentially unchanged at 7.8%, while the rate in Central Canada edged up to 10.5% from 10.2% in the third quarter of 1996.

Chart Two  
Quarterly Labour Force Estimates  
Percentage Change, Canada, Both Sexes





While labour market conditions at the national level appeared somewhat static in the second quarter of 1996, this was not the case at the regional level. Atlantic Canada's unemployment rate increased by 0.2 of a percentage point to 13.7% between the first and second quarters of this year. Central Canada witnessed an increase of 0.3 of a percentage point, to 10.0%, while the West witnessed a decrease in its unemployment rate from 8.0% to 7.8%.

## PARLIAMENTARY ACTION

Although labour market legislation seldom dominates the parliamentary agenda, a number of reforms to what is now called Canada's Employment Insurance Program has given some prominence to labour market issues in recent years.

Officially introduced in 1989, Bill C-21 (An Act to amend the Unemployment Insurance Act and the Employment and Immigration Department and Commission Act) did not become law until October of the following year. This law paved the way for a reallocation of \$1.3 billion away from regular benefits to enhance initiatives for the unemployed (e.g., training course purchases, assistance for mobility and self-employment), a new special benefit structure and an extension of UI coverage to those 65 years of age and over. Also of great significance, Bill C-21 shifted the total cost of the UI to employers and employees, thus bringing to an end government contributions to the program.

On 26 February 1991, the Minister of Finance tabled a budget that called for a further increase in UI premiums in July 1991 and a \$100 million cut in Canadian Jobs Strategy (CJS) spending. A similar cut in CJS funding was announced in the budget on 25 February 1992. In December of the same year, the Minister of Finance announced that new tax incentives would be developed and an additional \$250 million would be spent over the next five years to encourage more training in industry. In addition, the Minister also announced that UI premiums in 1993 would be held at the 1992 level and a premium holiday would be extended to small firms to stimulate the creation of jobs. Moreover, the benefit rate would be lowered to 57% of average weekly insurable earnings and voluntary quitters and individuals who had lost their employment because of misconduct would be denied benefits.



Further changes to UI were contained in the *Budget Implementation Act, 1994* (Bill C-17). Designed to reduce UI expenditures, these changes tightened the entrance requirement in high unemployment regions; introduced a new and less generous benefit structure and implemented a two-tiered benefit rate. In terms of the benefit rate, claimants with dependants who earn less than or equal to one-half of maximum weekly insurable earnings (\$390 per week in 1994) receive 60% of average insurable earnings, while the benefit rate for all other claimants is 55%.

In 1994, the possibility of a major UI reform surfaced when the federal government launched its review of Canada's social programs. While some of the legislative changes in Bill C-12 (An Act respecting employment insurance in Canada), adopted in June 1996, mark a new approach, the primary structure of the new program remains essentially unchanged. For example, the old weeks-based approach for determining benefit eligibility and duration is now based on hours (assuming a standard work week of 35 hours). Weekly benefits are now determined by averaging insurable earnings over a fixed, consecutive period of time (including weeks without earnings) known as the "rate calculation period." While the weekly benefit rate remains at 55%, this rate could decline by as much as five percentage points, depending on an individual's claim history. In terms of income redistribution, the new law provides an income supplement to claimants who have children and a low family income. Moreover, the existing benefit repayment provision has been significantly strengthened by lowering the income threshold at which benefits are repaid as well as raising clawback rates according to an individual's claim history. While claimants may continue to earn up to 25% of weekly benefits without experiencing a reduction in their benefits, low income claimants (i.e. those receiving weekly benefits below \$200) are now entitled to an earnings exemption of up to \$50 per week.

In addition to a lower premium rate in 1996 and a reduction in maximum insurable earnings to the year 2000, a premium refund will be made available to small businesses in 1997 and 1998, depending on the difference between premium payments in those years and those made in 1996. In addition, the new insurance system permits the program to



generate and maintain surplus revenues. This measure is intended to minimize fluctuations in premium rates over the business cycle.

The reconfigured insurance system also provides financial assistance - grants, contributions, loans and vouchers - under employment benefits (previously known as UI developmental uses). Eligibility for these benefits includes those who are eligible for unemployment benefits, those who have received regular benefits in the past three years and those who have received maternity or parental benefits in the past five years. As in the case of the UI reform in 1990, the government intends to redirect some program savings to employment benefits. On 30 May 1996, the Minister of Human Resources Development offered provincial and territorial governments the opportunity to assume responsibility for the labour market measures underlying employment benefits. **To date, two provinces - Alberta and New Brunswick - have signed agreements to be renewed after three years and that involve the design and delivery of programs similar to employment benefits under the *Employment Insurance Act*.**

## CHRONOLOGY

- 23 October 1990 - Bill C-21 received Royal Assent, thus paving the way for the government to implement its Labour Force Development Strategy.
- 26 February 1991 - In the budget, the Minister of Finance announced the government's Expenditure Control Plan, part of which called for a \$100 million cut in Canadian Jobs Strategy expenditures in 1991-92 and a 24.4% increase in UI premiums in July of 1991.
- 29 October 1991 - The Ministers of Industry, Science and Technology and Employment and Immigration jointly announced the Prosperity Initiative. This initiative is a comprehensive consultation process designed to establish measures for enhancing Canada's international competitiveness. One aspect of this exercise that is expected to receive a great deal of attention is human resource development, especially in regard to basic education and enterprise-based training.

- 25 February 1992 - The Minister of Finance announced in his budget that CJS expenditures would be cut by \$100 million in 1992-93. While this was more than offset by an increase in UI developmental expenditures, it will probably have an adverse impact on the non-UI claimant population served under Employment and Immigration's Employment Activity.
- 29 October 1992 - The Steering Group on Prosperity released a report entitled *Inventing Our Future: An Action Plan for Canada's Prosperity*. The report contained a number of recommendations covering a broad spectrum of issues ranging from the need for more disciplined fiscal policy, fair and competitive tax structures and a single Canadian market to the creation of a strong learning culture and a society where all individuals participate in, and benefit from the opportunities flowing from a more prosperous Canada.
- 2 December 1992 - The Minister of Finance announced in his economic statement that new tax incentives would be developed and \$250 million spent over the next five years to encourage the private sector to undertake more training. The Minister also announced that unemployment insurance premiums in 1993 would remain unchanged at 1992 rates and the government would waive employer premiums, up to a maximum of \$30,000 per small enterprise, to encourage small firms to hire additional workers.
- 17 February 1993 - Bill C-113, Government Expenditures Restraint Act, 1993, No. 2, was tabled in the House of Commons. Part IV would amend the *Unemployment Insurance Act* by reducing the benefit rate from 60% to 57% of insurable earnings until 1 April 1995 and would impose a total disqualification on claimants who voluntarily leave employment without "just cause" or who lose their employment due to misconduct.
- 26 April 1993 - Although the Minister of Finance announced in the budget that the lower UI benefit rate would remain at 57% beyond April 1995, this provision was never proclaimed.
- 23 June 1993 - Bill C-101 (An Act to amend the Canada Labour Code and the Public Service Staff Relations Act) received Royal Assent. These changes were designed to make employment standards under the Code more equitable vis-à-vis workers, reduce



employers' administrative burden and introduce a mechanism to help resolve disputes that could adversely affect the public interest.

December 1993 - The First Ministers approved the Canada Infrastructure Works Program, a \$6-billion program whose costs are shared equally by the federal, provincial/territorial and municipal governments.

As of August 1996, over 12,000 projects had been approved and roughly 97% of total funding had been committed. Assuming about 60% incrementality, it was estimated that the net job creation impact of the program over a ten-year period would be about 81,000 person-years.

18 January 1994 - In the Speech from the Throne opening the first session of the thirty-fifth Parliament, the government announced its intention to, among other things, move quickly on its short-term job creation program (i.e., the tripartite infrastructure program), create a Youth Service Corps and reform Canada's income security system (including unemployment insurance) within two years.

22 February 1994 - the Minister of Finance announced in the budget that some \$400 million would be made available in each of the fiscal years 1995-96 and 1996-97 to fund innovative social assistance projects. In addition, the budget provided \$1.7 billion for the Atlantic Groundfish Industry Renewal and Adjustment Strategy.

15 June 1994 - The *Budget Implementation Act*, 1994 received Royal Assent. Part V of this Act amends the *Unemployment Insurance Act* by changing the variable entrance requirement from 10-20 weeks of insurable employment to 12-20 weeks, depending on the regional unemployment rate; reducing benefit entitlement; and adopting a two-tier benefit rate to assist low income claimants with dependants.

23 June 1994 - The *Canada Student Financial Assistance Act* received Royal Assent, thus paving the way for, among other changes, an increase in loan limits for both full-time and part-time students. The maximum loan for part-time students increased by 60% to \$4,000 per year.

5 October 1994 - The Minister of Human Resources Development tabled a Discussion Paper on reforming Canada's social security system.

The paper provides a number of suggestions for changing, among other things, employment development services, unemployment insurance, transfer payments for post-secondary education, social assistance and the child tax benefit. The Standing Committee on Human Resources Development held public hearings on these proposals and tabled its report on 6 February 1995.

- 15 December 1995 - Bill C-64 (An Act respecting employment equity) received Royal Assent. In general terms, Bill C-64 amended the *Employment Equity Act* to put the federal public sector under the legislation, to provide guidance to employers on their obligations, and to clarify these and to create an enforcement mechanism to ensure employer compliance.
- 20 June 1996 - Bill C-12 (An Act respecting employment insurance) received Royal Assent, replacing the *Unemployment Insurance Act*. Employment insurance was designed to achieve three primary policy objectives: to reshape Canada's unemployment insurance system to better address the coverage and adjustment needs of unemployed individuals; to reduce the extent to which the program encourages firms and workers to use it (i.e. the problem of repeat use); and to reduce program expenditures and improve the program's financing structure so as to stimulate job creation.
- 1 July 1996 - The Minimum Hourly Wage Order, 1996 came into effect. As a result of this change, the federal minimum wage is now aligned with the general minimum wage rate in each province and territory. As of 1 July 1996, the federal minimum hourly wage increased from \$4.00 to a low of \$4.75 in Newfoundland and a high of \$7.00 in British Columbia.
- 30 August 1996 - The Minister of Labour established an Advisory Committee to examine a broad range of issues dealing with the changing nature of work. The Advisory Committee, chaired by the Minister of Labour, is expected to produce an overview report by the end of March 1997.



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